RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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July 29, 1998 **LETTER 1257**

THE PICTURE: On July 14 the Dow, the S&P 500, the NYSE Composite and the Nasdaq all rose to new record highs. On the face of it, that was bullish action. Wall Street wisdom tells us that the most bullish thing the market can do is advance to new highs.

Wrong -- the most bullish thing a stock average can do is rally to a new high -- **confirmed** with the other averages and breadth. But that's **not** what has been happening. The recent Dow/S&P highs were not confirmed by the Transports, the Utilities or the advance-decline ratio. In other words, the Dow/S&P advance to new highs was extremely narrow, which is fine for people holding a handful of the stronger blue-chip stocks but frustrating, if not. costly, for those holding a representative portfolio of stocks.

The new Dow/S&P highs were preceded (see page 2 chart) by new highs in my Primary Trend Index (PTI). With a bow to the PTI, this indicator has been of great value to me ever since I began using it back in 1971. As for recent history, the PTI has held persistently above its 89-day moving average ever since February 1995, an extraordinary period of three years and five months.

During that period the stock market has broken every "rule" of valuation and price action. During the three years and five months since the PTI crossed above its 89-day moving average, the Dow has risen from 3825 to 9338, a rise of 144%. In doing so, the market broke almost every historic "rule" of valuation and every norm of price action.

THE BREADTH PICTURE: Market analysis is not an exact science -- no, it's a small part science, but mostly it's an art. The crux of this "art" is in intuiting which items and indicators to believe at any given time -- and which items to "throw out." As subscribers know, in recent Letters I've been **concentrating** on the one area that I believe is **most important** at this time -- **market breadth,** as measured by the advance-decline ratio. There is nothing more fundamental to overall market action than breadth, or whether the majority of issues are advancing or declining. And there's no worse market than one in which breadth declines week after week.

Two Letters ago I even introduced a new breadth indicator, which I called my **Big-Money Breadth Index (BBI).** We have the A-D ratio, which provides us with a picture of the trend of the **majority** of stocks on the NYSE. And now we have the BBI, which provides us with a picture of what the giant "market-movers" are doing. In other words, we have two valuable breadth indices.

And what are these two doing? On April 3 the **A-D ratio** (see page 2 chart) topped out at a value of 13.00 on my chart. Since then, we've seen an amazing period of **extended divergence** with the Dow recording five successive higher peaks while the A-D ratio traced out five **lower** peaks. Even on the final Dow surge to a record high of 9338, the A-D ratio failed to better its minor preceding June peak of 10.62. The April-June series represents one of the worst breadth performances I've ever seen.

Now to the **Big-Money Breadth Index.** The BBI (see page 2 chart) topped out on April 1 at a value of 1028. From there the

July 17 DJIA 9337.97; PTI 5361; A-D Ratio +10.46
July 24 DJIA 8937.36; PTI 5344; A-D Ratio +9.04
Dow Yield: 1.64%; Dow Price/Earnings: 22.7
Dow 144-day MA: 8737; Dow 34-day MA: 9047
Dow Times Book Value: 5.60; PTI 89-day MA: 5321
Percentage of Undervalued Blue-chips: 4%
Gold 34-day MA: 299

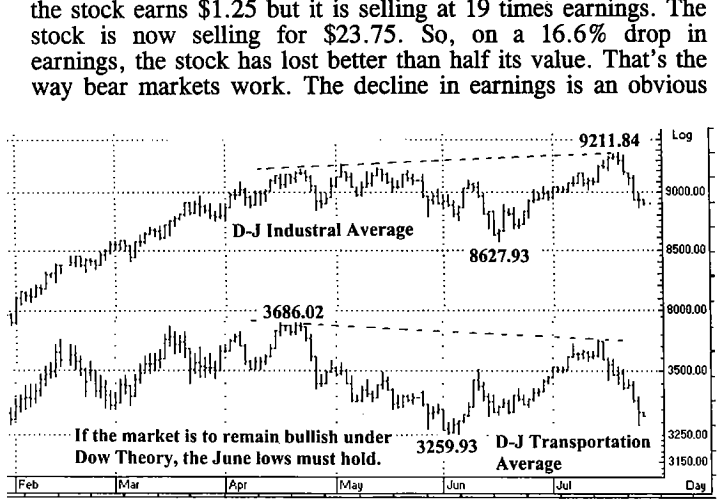
BBI sank steadily to a low of 969 recorded on June 3. The BBI started up again, and on July 17 the BBI hit a peak of 1028, the exact same level as its April 1 high. I thought it significant that in the face of new highs in both the Dow and the S&P 500, the BBI failed to better its April 1 high. From its July 17 "double-top high," the BBI started down again -- not exactly an inspired performance.

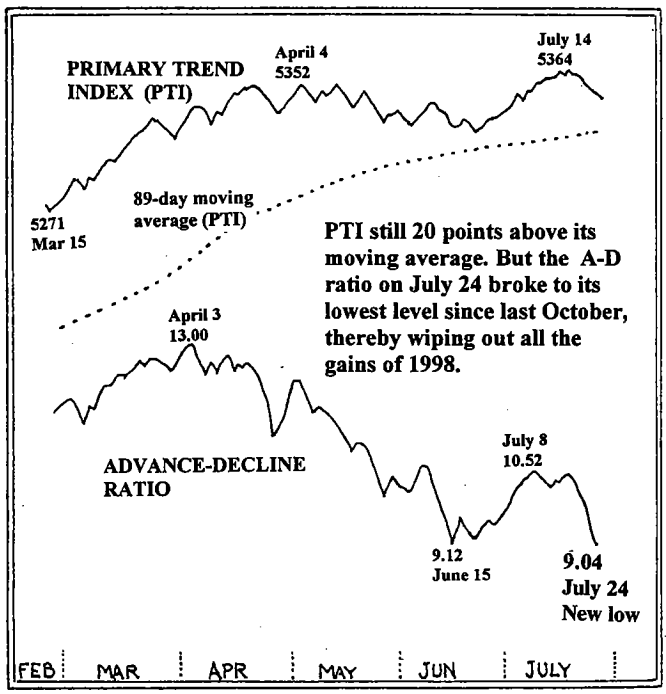
Conclusion: A Wall Street adage tells us, **"The market can do anything."** And that, in a nutshell, describes the danger in attempting to predict where the stock market will be in a week, a month, a year from now. By the same token, there's a great advantage in just **following the price action.** Of course, when the price action doesn't correspond with our preconceived notions, that can present an "ego problem." And old-timers know what the stock market does to big-ego types.

Overall, it's been a sloppy, very selective bull leg during 1998, but it's been a bull leg nevertheless. In the past a Dow rise accompanied by persistently lagging breadth has led to trouble -- we saw this in 1961, in 1969, in 1972, in 1983, in 1987, and in 1990. The odds are that we will see that same kind of trouble again. When will the trouble arrive? It may have started already, or it may lie somewhere ahead. The breadth indices have already hinted of "danger." It remains for my PTI to confirm or deny what the two breadth indices have been saying.

Sundry Comments: Analysts continue to predict that the secondary and less-than-blue-chip stocks will, in time, join the big blue-chips on the upside. It certainly hasn't happened yet. Personally, I don't think it's going to happen.

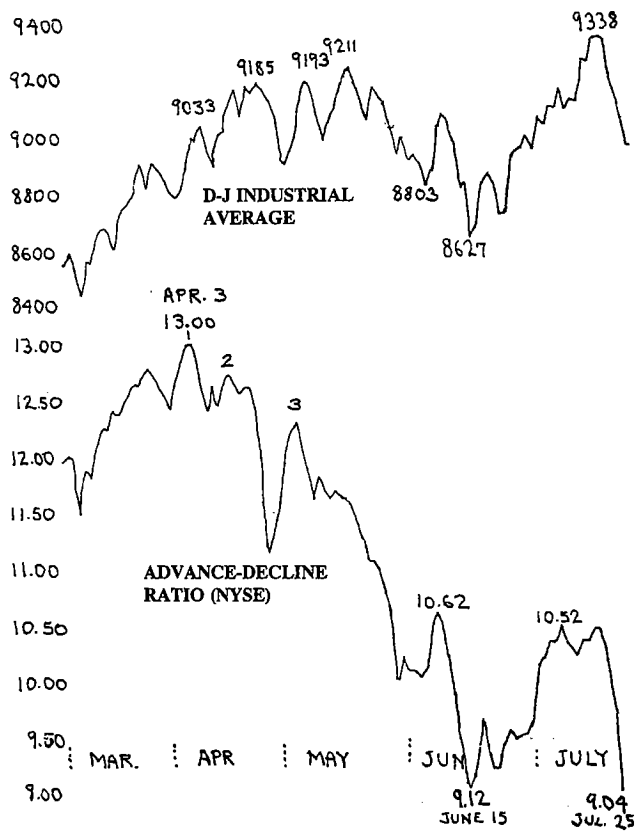
Most people don't understand that the big "mover" in the stock market is not earnings, it's the earnings multiple, better known as the price/earnings ratio. In a bear market, declining earnings are a depressant, but declining price/earning ratios are the real KILLERS. Say a stock has earnings of $1.50 and is selling at 35 times earnings in today's market (not uncommon), the stock would be selling for $52.50. Now a bear market is in force and the stock earns $1.25 but it is selling at 19 times earnings. The stock is now selling for $23.75. So, on a 16.6% drop in earnings, the stock has lost better than half its value. That's the way bear markets work. The decline in earnings is an obvious

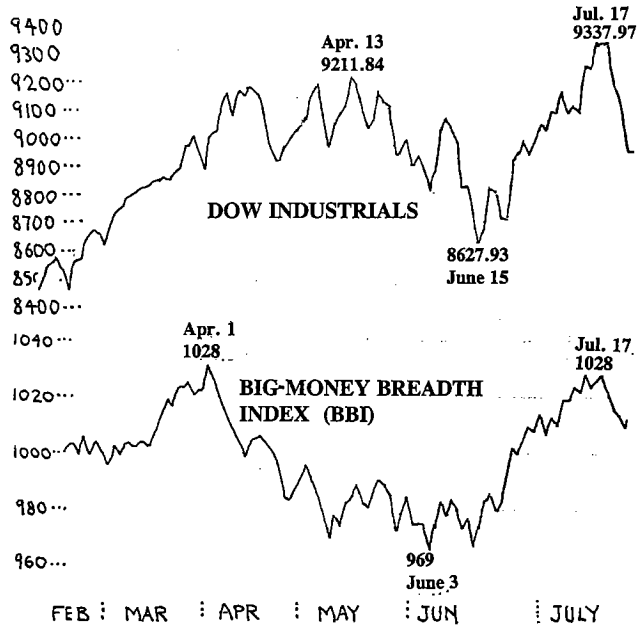



PRIMARY TREND INDEX (PTI)
April 4 5352
July 14 5364
5271 Mar 15
89-day moving average (PTI)
PTI still 20 points above its moving average. But the A-D ratio on July 24 broke to its lowest level since last October, thereby wiping out all the gains of 1998.
April 3 13.00
ADVANCE-DECLINE RATIO
July 8 10.52
9.12 June 15
9.04 July 24 New low
FEB MAR APR MAY JUN JULY

negative, but the big killer is the decline in the price/earnings ratio.

In the last Letter I included a chart of the surging MZM money supply, the money of zero maturity. Many of today's bears refer to the current stock market situation as a "bubble." As I see it, if there's any bubble present in the US, it's a bubble of **liquidity.** The fact is that the US is swimming in money. And as if there isn't enough money being generated here, billions of dollars of foreign money have been pouring into the US, much of it opting for safety, but a good deal of it simply searching for profitable investments. I've said this before, but I'll repeat it, if you want the answer to almost any economic or political problem, I can almost guarantee that the answer lies in three words, **"Follow the money."** Or, as a well-known Wall Streeter once told me, "I view the entire economic picture as one vast flow of funds." **Russell Comment**: And the funds have been flowing into the US -- mostly into the stock market but more recently into real estate.



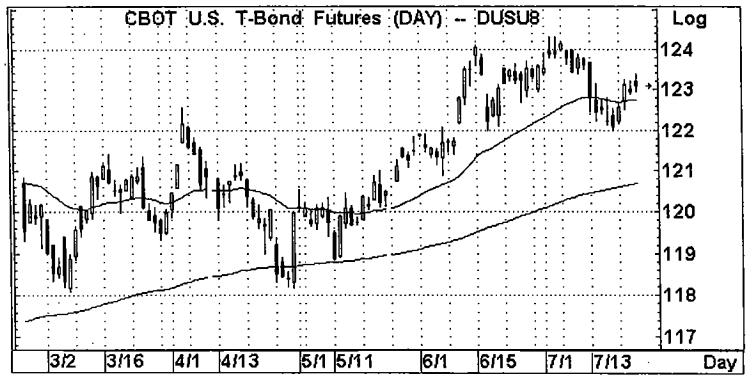


Personalities: Goldman Sach's Abbey Cohen, Wall Street's reigning guru, has boosted her target for the S&P 500 from 1200 to an "easily achieved" 1250 by mid-1999. She's been very good, so far, but remember my warning, "There are no geniuses on Wall Street, only geniuses for a while."

My old friend, Joe Granville (I've known Joe since 1960), asks an interesting question in his Letter of July 16. He writes about all the bearish writers who have hated this market and been writing about it bearishly literally for years. Joe asks, "When the end actually comes, how will we know it? We certainly won't know it by getting warning from these bearish letter writers. They haven't written anything new in years."

I agree with Joe, the bears may call the end of this bull market, but who will listen. People will just say, "There they go, crying 'Wolf' again." No, the market itself will tell us when it's all over. The Averages will deliver a Dow Theory bear signal by breaking below their respective June lows of **8627.93** and **3259.30.** My Primary Trend Index will break below its 89-day moving average and continue down. The Big-Money Breadth Index will head south with a vengeance. And the advance-decline ratio, which has been declining since early April, may well lead the way down. Yeah, we'll know when the last trumpet blows taps for the great bull market. Believe me, we'll know.

BONDS: The daily chart really tells the story here. The September bond futures hit a high of 124 on July 7. From there



the bonds slumped to a low of 122 on July 17. Note, however, that the 34-day moving average remained bullishly far above the longer 144-day MA. On July 14 the bonds broke below their 34-day MA, but they held below the MA for only five days. Then, on July 21, the bonds advanced above the 34-day MA again, thereby giving a "buy signal." The bonds are in the bullish mode as this is written.

INVESTMENT POSITION A very small bull resides in the box. And he's a frightened bull at that. If the Dow and the Transports break their June lows, the bull will promptly be replaced with a bear. Engrave these numbers in you mind: the June low for the Dow was **8627.93**, the June low for the Transports was **3259.30**.

There's nothing in Dow Theory or any other theory that tells us that we have to wait for a bear signal before lightening up or clearing out of stocks. Since early April sitting with a portfolio of assorted stocks (unless you own selected blue-chips and Internet stocks) has been an unrewarding, if not costly, experience. The question now is whether a continuing deterioration in breadth will infect every segment of the market. My thinking -- if, and I say IF, breadth continues down it will take everything with it.

Many years ago I likened the breadth of the market (i.e., the A-D ratio) to the water in a bathtub. Once the stopper is pulled and the water level starts sinking, the soap and toys (individual stocks) that are floating at the top may bob and bounce, but ultimately they will decline with the water level. And in due time, as all the water runs out, the soap and toys will end up at the bottom of the bathtub. All their bouncing and bobbing will have been simply deceptive and in vain -- it's the water running out of the bathtub which has told the real story.

Translation: It's time to be very careful, we **don't yet know** what we're dealing with -- but let's play "just in case." OK, the odds are always against it, but **just in case** a bear market is developing, believe me, we want to be on the sidelines watching it rather than being part of it. **P.S.** If a bear market materializes, the Fed will fight it with lower interest rates, in which case the bond market will be the place to be.

NOTES & QUOTES: For months I've been saying that the Internet is a force for deflation. The Internet will confront the retail business with the toughest, most relentless competition they've ever seen. In three minutes I can pick out the best buy on a CD, a camera, an insurance policy, a TV set. The *WSJ* (July 23) front page story notes that "the Net, by its very nature, is hostile to profit margins." Furthermore, the article is skeptical regarding profits for Net advertisers. "Investors are focusing on the explosive growth of Internet commerce, while assuming that profitability will surely follow," runs the article. **Russell Comment**: "Everybody" wants to sell on the Net, and when everyone wants to make money in the same business, that business always turns out to be tough, tough, tough.

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I'm beginning to think that the Asian situation and particularly Japan is not going to "get better" as rapidly or as easily as many of the optimists believe. I base my thinking partly on the rotten action of the yen. It just can't seem to get over and stay over its 34-day moving average. I count eight times this year when the yen approached its 34-day MA, and each time it's been turned back. Then last week again the yen tried, and again it failed. On top of the lousy yen action, I'm skeptical of how much good all this IMF money is going to do. There is such a sheer mass of bad loans in Asia that it may take a lot more than IMF money to turn the Asian nations around.

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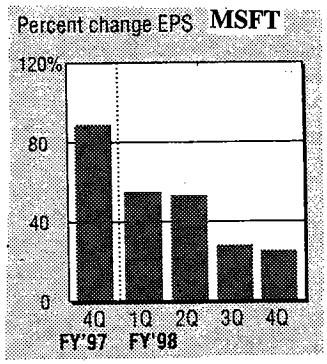

Microsoft is arguably the most important single stock in the nation. GE may have a greater capitalization (over $300 billion) but MSFT represents the cutting edge of the computer/software revolution. The latest earnings for MSFT (four quarters to June 30) were $1.67. This was up 28% from the year earlier four quarters. Nevertheless, as this chart shows, earnings growth for MSFT has slowed. When I started investing back in 1947 the standard "formula" for investing was that a "good stock" should sell for 10 times earnings while paying a dividend of 6%. MSFT now sells at 70 times earnings; Bill Gates may get a salary and bonus but MSFT stockholders receive no dividends. So is MSFT expensive? Overpriced? I think so. Personally, I work with Windows 95 and I have no reason to "up-grade" to Windows 98 or any other Windows. Actually, I find enough glitches in Window 95 (funny, I often miss my Mac). Can MSFT continue to come up with software that consumers feel compelled to buy? I don't know. But I do think MSFT, like a lot of today's tech stocks, is expensive and selling on the basis of future growth which may or may not materialize. **Note:** Last week **Sun Microsystems** announced a product called Jini that is designed to negate the need for Windows and other operating systems being used today. **Russell Comment:** Just imagine what would happen to MSFT if the new Sun system was better than Windows. What's hot in technology today can be a memory tomorrow

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In his July 21 Humphrey-Hawkins speech, Fed Chairman Greenspan stated that the Fed's purpose is to promote price stability along with maximum growth. Fact: Since the Fed was founded in 1914, the dollar has lost 95% of its purchasing power.

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Speculative insanity reigns, the latest example being Broadcast.com, an IPO which came out at 18 and was bid up as high as 74 the first day. This was the biggest initial offering jump in US history. The company, located in Dallas, recently changed its name from Audionet to Broadcast.com (the magic switch). The company is small, is spending twice as much as it is taking in, and in '97 it lost $6.5 million on revenues of $6.9 million. There is also not much the company can do to defend itself against competition. Said David Simons, a director of Digital Video, "Anyone can do what they're doing. Net investors are impervious to the notion of competition."

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Appreciation: Back in 1954 an art collector was rummaging though a French art shop and he came across a pretty painting of a garden in France's Giverny. He picked up the painting for $7,000. His choice turned out to be a painting by Monet. Last month at Sotheby's in London the painting was auctioned off for a record $33 million . . . A professor died last week, having outlived his wife by a few years. Nothing too unusual about that except the couple had amassed $750 million worth of Berkshire Hathaway stock. It seems that the couple were long time friends of Warren Buffett's, and they asked him how to invest. He suggested buying his stock. Their first purchase was Berkshire at $52 a share. They continued to accumulate. The Prof's wife died owning 7,500 shares of Berkshire; the Prof died owning 7,000 shares. They had both lived very frugally, and few people had any idea how amazingly wealthy they were. Buffett, who often visited the couple, noted that there would be many more such cases, some even more fantastic.

Interesting Question: You bought Berkshire in 1962, and your stock has risen from sixty bucks a share to the current $74,000. But Berkshire has never paid you a nickel of dividends. Therefore, you can't compound your money with Berkshire because you're not receiving any money. So what have you

really got? First, Berkshire now owns or controls probably $50 billion in assets. The stock has compounded its assets and over the years has climbed into the stratosphere. But because it has never paid a dividend, in order to realize any of that extraordinary appreciation you really have to sell shares. Personally, I prefer a stock that pays cash, mainly because I can then take the cash and diversify into other investments. But there's no denigrating Berkshire, it is diversified, it has great management, and it does its compounding internally.

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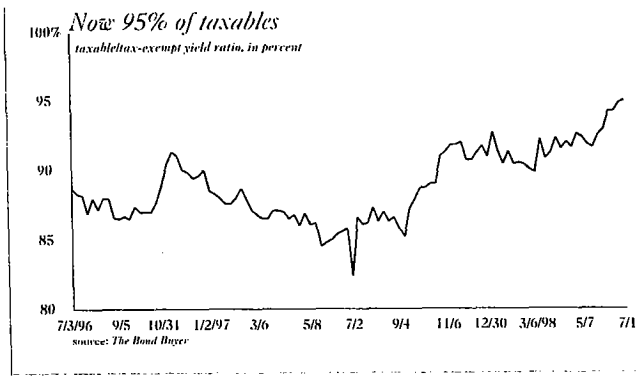
Muni Bargains? Looks like it, at least they are when compared with taxable bonds. This chart tells the story: tax free municipal bonds are now selling at 95% of the price of taxables. For investors who want safe, tax-free income, many munis are currently attractive. Personally, I like AA-rated or better bonds, and I'm not partial to bonds graded high on the basis of their being insured. I like bonds that rate high on their own merits. If you're in a high-tax state such as New York or California, muni bonds are looking attractive [chart courtesy of *Grant's Municipal Bond Observer* -- (212)809-7994].



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Bruce Steinberg, Merrill Lynch's chief economist, believes that the next move by the Fed will be to lower rates. He writes, "Economic momentum is eroding fast. The US economy probably slowed sharply in the second quarter, while we believe that GDP rose at a rate of only 1%. The industrial sector is shrinking for the first time in two years . . . We expect (Fed) policy to remain on hold until at least late 1998. When the Fed finally acts, it will ease, not tighten, in our view." **Russell Comment**: Steinberg is a very smart guy, and he could well be right. Up to now any decline in rates has been factored into a higher price/earnings ratio, which means higher prices for stocks. But if a real deflation is coming, corporate profits could head down along with lower interest rates. The conventional wisdom now is that lower rates = higher stock prices. Remember, when everyone thinks the same, nobody is thinking.

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All over the US kids are swing dancing, better known to us old-timers as the Lindy Hop (named after Charles Lindbergh). The last time I did a serious Lindy was at the 1939 World Fair in NYC. My cousin Phil and I would take the long ride on the subway (cost 5 cents) to the last stop in Astoria, then walk a few blocks to that fabulous Fair. It was just as well that we were having a good time because three years later Phil was sweating it out at West Point, and I was sweating it out in the Army. Dancing was a national obsession during the Depression, and at the Fair there were always lots of cute girls ready to teach us the latest steps while we danced the night away. What goes around, comes around. So today I ask myself, what's next, the return of the "big bands," the Automat, ballad singers, Bingo at the movies, a 6% yield on the Dow? Seriously, social phenomena often provide hints of coming events. And I've even wondered whether all these "end of the world" movies might be hooked into the current US mass psyche. Note: Frankenstein and Dracula came out in 1931-'32, at the depths of the Depression. King Kong came out in 1933.

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Congressional elections are coming November 3. If the Dems can pick up just 11 votes they will wrest control of Congress from the clueless Republicans. But wait -- Al Gore's lights are fading. Could we get another split government? George W. Bush as a Republican president with a Democratic House? That's the American voter's formula for keeping Washington as impotent as possible, better known as "keeping the damn government out of our hair." The GOP has instituted some reform in the IRS. But the bigger target is getting rid of the current insane, complex tax system and substituting something a lot simpler. To do that it would be necessary to have both a Republican president and a Republican Congress (Clinton most definitely wants to keep the present tax system). To my mind, the best chance for getting a new tax system would be an all-out Republican campaign literally guaranteeing that if elected they'll jettison the IRS. As I see it, the only item that **all** Americans agree on is that the current income tax system is impossible.

Make no mistake about it (Republicans, are you listening?), the swing vote for US elections is now -- WOMEN. And basically, women strongly favor Clinton and the Dems on abortion. I don't care what your personal choice is, the fact is that women (particularly better educated white voting women) are pro-choice. And that's the way they will vote. If the GOP remains adamantly anti-abortion, then the GOP's got a big problem. **Note:** One of the most powerful partnerships in the nation today is Hillary Clinton and Secretary of State Madeleine Albright. Albright is the highest-ranking woman in government in US history and Hillary is arguably the most powerful first lady in history. They're both Wellesley graduates, both have had troubled marriages, both have daughters, both talk to each other weekly and both often travel together. Both aim to advance the status of women and both aim to get out the women's vote.

Key Swing Vote in 1998: Women

■More women lean Democratic, [illegible] must get the voting booth

Hillary Clinton Tells Women to Stop Silencing Themselves

From Associated Press

SENECA FALLS, N.Y.—Invoking the names of suffragist heroes,

heavy responsibilities of work and home.

"They would be alarmed and outraged," Mrs. Clinton said. "The

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Billionaire Paul Allen (Bill Gates' former partner) is raising his stake in DreamWorks SKG by buying out a big portion of the holdings owned by S. Korean firm Cheil Jedang. The new purchase will give Allen a 24% stake in the new studio. Surprise: Allen's stake of 24% is larger than the approximately 22% owned by the three principals, Spielberg, Geffen and Katzenberg. After spending billions, what has DreamWorks actually produced? A gaggle of mediocre films plus "Deep Impact," which made some real money. But the new "Saving Private Ryan" could be a winner. Also, the studio's backers are holding their breadth for the opening of "Moses," Katzenberg's answer to the Disney animation crowd. Writes *Entertainment Weekly* (July 10), "Investors are beginning to realize that profits are many years away . . . With so few movies (six or eight a year) and so many co-financing deals, DreamWorks hits have to be huge to make investors happy, and so far they haven't been."

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Speaking of movies, Hollywood is going back to World War II. Why? People are tired of movie monsters, and the parade of "end of the world" pics is becoming boring. So Hollywood is going back to the "good war" and the ultimate horror -- WWII. No less than six new WWII movies are slated to appear, the first being "Saving Private Ryan," which I saw over the weekend. I've been in combat, I've been shot at, and I know the icy fear that accompanies the possibilities of death and mutilation.. Believe me, this movie by Steven Spielberg is as near as you're ever going to get to the horrors of war. I don't know how popular this movie is fated to be, but it's my sincere hope that it will be shown all over the world -- in Iraq, in Japan, in

Germany, in Egypt, in S. Africa, in Iran. "Saving Private Ryan" makes a mockery of almost every other war film ever made. To my mind, it's one of the two or three greatest movies ever made.

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I just bought Gillette's new triple blade razor, which they call Mach3. Gillette says they spent $700 million developing the new razor. Was it worth all that money? My conclusion: I've shaved about five times with it, and each time I use it I like it better. The Mach3 is a very good razor, looks high-tech, is expensive and may be even worth it.

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Gambling (I hate the euphemism gaming) is taking over the nation. Today 37 states have lotteries, 10 have commercial casinos, 19 have tribal casinos, 41 states have horse or dog racing, and 46 states have charitable gambling. Only three states have NO gambling -- Utah, Tennessee and Hawaii. Currently, 10 states are debating whether to increase their stake in gambling.

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Russell Opinion: Clinton has to be America's luckiest president -- or is he some kind of sexual Rasputin? How else do we explain Susan McDougal's strange refusal to tell what she knows? How else can we explain Janet Reno's unbelievably stubborn refusal to appoint an independent counsel to investigate the Democrats' money grubbing? How else do we explain Monica's refusal to tell her whole story? It really is amazing. The Clinton ladies just won't talk.

Jay Leno on Clinton: "He's like a ninth-grader, quoting the Bible to say it's all right. Politics is the only business where, if you play around, your wife has to defend you. You know that movie, City of Angels, where a guy gives up heaven for sex? That's Clinton." Question: Has Clinton made adultery respectable? The US military is now weighing changes in its policy towards adultery. Up to now adultery has been a no-no leading to a dishonorable discharge. But now the military is considering the following: officers could still be discharged if found guilty but the proposed changes would urge commanders to file charges only when adultery has disrupted the morale or smooth functioning of a military unit. **Russell Conclusion:** If you're in the military and you're going to be an adulterer, do it with a civilian, not another person in the military.

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Oldsters: Nah, nobody's really old anymore. Consider this: Between 1991 to 1995 college enrollments for students 65 or older jumped 27%. The Education Dept. says 81,000 people 65 or older are now part- or full-time students. Another 346,000 students aged 50 to 64 are back at college. Now get this: The 1999 Senior Games are holding qualifying meets for the big games slated for October 1999. The Games are expected to attract 11,000 seniors competing for medals in 18 sports. Want info? Contact National Masters News at (541)343-7716.

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A few million people a day eat Big Macs, but not many burger-chompers know that last week Dick McDonald died at the age of 89. Dick and his brother, Maurice, started out with a barbecue car-hop restaurant in San Bernardino back in 1940. In 1948 they opted for speed. They converted their restaurant, thereby inventing the drive-in limited menu fast-food concept. Dick was the man who first sketched the golden arches that have become the chain's internationally recognized icon. The prices for food in the early days were as follows: 15 cents for a hamburger, 19 cents for a cheeseburger, 10 cents for fries, and 20 cents for a malted. The brothers built a total of eight restaurants and 20 franchises before selling out McDonald's for $2.7 million to San Diegan Ray Kroc back in 1955. The rest, is restaurant history. Was Dick's sale to Ray Kroc a mistake? Dick says he never regretted it. Ray worked his heart out and died in 1984; Dick died only last week.

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Last week El-Guerrouj of Morocco did something absolutely incredible. At a Rome track meet he broke a world record by running the 1,500 in the time of 3:27.37 (equal to a 3:42 mile). In all history, nobody had run this classic distance this fast. For this absolutely fantastic feat El-Guerrouj got a small notice in the *LA Times* and, I guess, in other papers . . . I don't know if he got any money for running the 1,500 meters faster than any human being in history, but I guess he got something. During the same week quarterback Rob Johnson, who has just one start on his NFL record, signed with the Buffalo Bills for five years at $25 million plus a franchise record $8.5 million bonus. Why the staggering difference in Johnson's and El Guerrouj's paycheck? Ah, an interesting question. And it goes back to something my wise old dad told me. He said, "Dick, I don't know if money means anything to you -- but if you want to make money, you've got to go where the money is." I replied, "Where's that, dad?" My father replied, "The best place to make money is the money business." I guess Warren Buffett would agree with my dad. But in all seriousness, it's true --if you really want to make money, don't open a hat factory in New Haven or a Thai restaurant in Salt Lake City, go where the money is. Where is it? Just as my father told me 50 years ago, the money is in the money business (with a polite bow to the partners of Goldman Sachs).

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Chelation: I had a quintuple by-pass operation in 1985. At the time, my surgeon (who was a realist) told me that after 10 years or so many of his patients come back for a second by-pass operation, meaning of course, that their arteries get stopped up again. By-pass is a tough procedure; it took me nearly three years to fully recover from that operation. Then about five years ago one of the grafts (that had been put in during the by-pass) clogged up again, and I underwent a second operation in which a "stent" was inserted in the graft. The stent can be likened to a tiny spiral spring that keeps the vessel open. After the second operation I did a lot of thinking: I had read something about chelation. So I said to myself, "There's got to be something else besides operations to treat clogged arteries. I can't keep doing this. I'm going to try chelation." I'm not going to give subscribers a long lecture on the chelation process, which I now undergo once a month, but I do want to suggest to my subscribers that if you even suspect you have heart trouble, get on the Internet and look up chelation. The whole story is there. Or write to Friends of Chelation Society, 255 N. El Cielo Rd., Suite 670, Palm Springs, CA 92262. Last week I saw my cardiologist and I underwent the classic treadmill test. The result: I'm in good shape, no change over the previous two years (and change in your cardiogram is one thing cardiologists look for). Furthermore, the angina (chest tightness, pain) that I used to get almost monthly has now about disappeared. I told my cardiologist that I was taking chelation treatments. He appeared disinterested (although to his credit he didn't denounce it, as most doctors do). Heart attacks are the single biggest cause of death in the US, and I don't want dead or chopped-up subscribers. Subscribers, educate yourself regarding chelation (key-lation). I have a stack of letters from subscribers who have been taking chelation treatments with successful (often amazing) results. **Note:** Many subscribers have sent me chelation articles from their local papers. Many thanks; I'm most interested.

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Question: Why is the IMF (with the US putting up $18 billion of taxpayers money) laying out $22 billion to bail out Russia? Answer: Russia has 150 million people, vast size, global influence and -- 30,000 nuclear warheads. What if Russia collapsed? In that case, a fallen Russia could shatter all the neighboring nations with which it trades (including Germany, which has big loans in Russia), it could force a default on $90 billion in outstanding loans, and revive serious tensions with the West and former East-block states. Furthermore, Russia remains a global player and a major force for good or bad in areas vital to the US such as the Middle-East, Europe and Asia. **Russell Comment**: My usual comment, "Follow the Money."

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Scholars are still trying to understand **Jack Kerouac** and his place in American history and literature. The battle for Jack's papers goes on and on, and it has now hit the newspapers as a major legal battle. Kerouac's daughter, Jan, signed an agreement with the Bancroft Library at Berkeley promising that if she won

the suit, she would deliver her father's archive to that institution. Her battle was based on a letter Kerouac wrote: "My brand new 4-drawer file cabinet is, now, neatly filled with several million words of letters since 1939 in prep school and all my own loose writings . . . childhood scraps, athletic clippings, in brief, a gold mine of information for scholars." The prep school Kerouac was referring to was Horace Mann in Riverdale, NY, a school that I attended. Kerouac was one class above me at Horace Mann. Jack was short, stocky and tough -- an excellent athlete. He had been brought in from New Jersey as a running back "ringer" to bolster our football team. I had a few conversations with Kerouac, who was generally aloof, moody and not given to a lot of talk. I was also friendly with Henri Cru, a close and completely zany friend of Kerouac's. Cru smoked cigars, raised hell, and would have been kicked out of school but was saved by the fact that his father was a French professor at Columbia. Cru was a prominent character in a number of Kerouac's books. Kerouac played football and I was a track man, and I always suspected that Jack thought all track men were sissies. Kerouac's famous novel, "On the Road," written in 1951, burst like an intellectual bombshell over the up-tight 1950s generation. Here was youth hitting the road, going where it wanted, drinking, hell-raising, searching, and being openly sexual. America was shocked, fascinated, scandalized . . . "On the Road" was the bible of the "Beat Generation," the kids who were tired of up-tightness, hypocrisy, boredom, and Victorian ethics. The Beats evolved to become the Hippies of the '60s, and it was here that America discovered drugs. The pot smoking and acid-dropping of the '60s led to the much-more sinister drug culture of the '70s and beyond. And it all started with a sullen football player in a prep school which was looking to upgrade its football team (Kerouac won a football scholarship at Columbia where he played for a while but soon lost interest). At Columbia he and his friend, Lucian Carr, got involved in the murder of a Columbia assoc. professor. Jack finally died at the age of 47, downed by liquor, drugs, depression and a long series of disappointments.

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Race, Religion: Back in 1970, Jews composed 5% of the US population. Today Jews comprise only 2%. What happened? The US population has continued to grow while Jews (with low birth rates) chose to inter-marry. Facts: over 50% of Jewish kids now marry out of their religion (two of my daughters, for instance, married Catholics). It's no wonder the rabbis are livid. I'm sorry to say that I haven't been of any help in the situation. Yesterday, I told my Christian wife, Faye, "Enjoy it, you're living with a dinosaur, a dodo bird, a member of an endangered species." Meanwhile, last week the Government reported that for the first time there are now more Latino kids than black kids in the US. The figures: there are 10.5 million Latino kids in the US, outnumbering black kids by 35,000.

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Speaking of wife Faye, her sister, Lori, and her husband came down from Silicon Valley to La Jolla for a vacation. Lori has a rare distinction -- Bill Gates asked her for a date and she turned him down. "Gad, Lori," I asked, "What did you tell him?" Said Lori, "I just told him, 'No.'"

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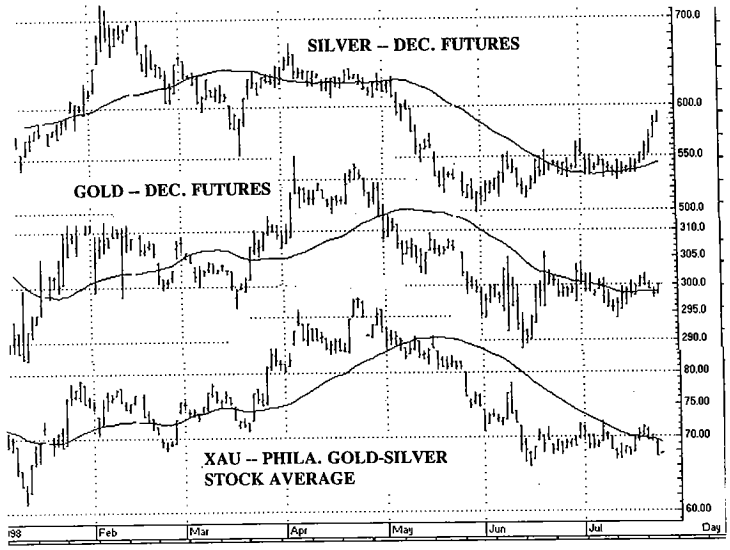
Larry King continues to be a pompous ignoramus. In his July 20 column in *USA Today*, Larry writes, "Who cares who runs the *New Yorker* magazine? The *New York Times* and other periodicals have made a front-page and op-ed thing about Tina Brown leaving to take a job with Miramax . . . This is the greatest non-story of 1998. Do you think anyone in Dubuque is talking about it at lunch today?" **Russell Comment**: First of all, Larry, Tina leaving the *New Yorker* is the biggest publishing story of the year. Second, almost half of the *New Yorker's* readership resides outside of New York. Third, don't insult the people in Dubuque, Larry, most are probably better educated than you are (did you ever go to college?). So why the stupid comment, Larry, did Tina Brown refuse one of your sycophantic interviews?



PRECIOUS METALS: Does silver know something that gold doesn't know? Silver took off last week, pushing well up above its 34-day moving average. Gold, on the other hand, continues to cling to its 34-day MA. At the same time, XAU, the Gold/Silver stock average, has been flat through most of June and July.

I used to spend a lot of time trying to dig through or explain the fundamentals of the precious metals complex. In retrospect, it's probably a waste of time.

Already the rumors are flying to the effect that, "Warren Buffett is back in the silver market." Maybe, but I doubt it. I just doubt whether Buffett has turned commodity speculator. The question is whether the rise in silver will rub off on the rest of the metals. If it does then maybe we've got something. If silver is an isolated case, then we haven't got much. Hey, after watching metals do little or nothing for 18 years, I'm entitled to be a little skeptical. But don't worry, I'll continue to cali 'em as I see 'em.

LATE NOTES: I again want to re-emphasize the concept of breadth. A complete understanding of breadth is absolutely fundamental to an understanding of the stock market. I've heard commentators recently pooh-poohing the awful breadth in this market, saying that the far more important consideration is the direction of the stock averages. Wrong. Take a very volatile stock average like the Dow. Five spurting stocks in the Dow could take that average to a new high. But that would be meaningless if the A-D was not advancing.

Question: Russell, if you're so sure that breadth is now telling the story, how come more analysts aren't seeing this phenomenon?

Answer: They haven't been around long enough, or they simply haven't done their homework. Let me point something out -- please turn to the chart at the bottom left of page 2. Note the Dow surge from 8627 to the record high at 9338. When on that surge the A-D ratio couldn't even rally above its June peak at 10.62, I thought that was one of the worst breadth performances I'd ever seen. It was telling me that no matter what the Dow did, the **majority** of stocks wanted to go down -- a very bearish indication.

The KEY to **the primary trend** of the market now centers on the **June lows** for the Dow and the Transports. As long as one or both averages hold above the June lows, the primary trend must be considered bullish. However, if BOTH averages break the June lows, a primary bear market will be in force. Low for the Dow -- **8627.93,** for the Transports -- **3259.30.**

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